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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

COMMONWEALTH OF VIRGINIA, ex rel  
STATE CORPORATION COMMISSION

and

ALFRED W. GROSS,  
COMMISSIONER OF INSURANCE,  
Applicants,

v.

CASE NO. INS940218

HOW INSURANCE COMPANY,  
HOME WARRANTY CORP., and  
HOME OWNERS WARRANTY CORP.,  
Respondents.

FOURTH DIRECTIVE OF DEPUTY RECEIVER

1. On November 29, 1994, the Deputy Receiver of HOW Insurance Company, a Risk Retention Group ( "HOWIC" or the "Company"), directed that 40% be paid on each Direct Claim, and imposed a suspension and moratorium on the payment of Indirect Claims pursuant to the powers granted by the Circuit Court of the City of Richmond, Virginia, in its Final Order Appointing Receiver for Rehabilitation or Liquidation dated October 14, 1994 (the "Final Order"). In that Directive, Direct Claims were those claims approved by the Deputy Receiver for the reasonable costs of repairing defects which arose out of, and were within the coverage and subject to the limits of, the warranty/insurance documents (the "Warranty/Insurance Documents") issued by the Company on behalf of builders who were members of Home Warranty Corporation and policyholders of the Company ("Member Builders"), less any applicable deductible. Indirect Claims were those claims approved by the Deputy Receiver for amounts of extra contractual obligations, non-economic damages, consequential damages, and litigation costs and attorneys' fees.

2. On January 23, 1996, the Deputy Receiver directed that the amount being paid on Direct Claims be increased from 40% to 50% and continued the suspension and moratorium on the payment of Indirect Claims.

3. On December 28, 1998, the Deputy Receiver directed that the amount being paid on Direct Claims be increased from 50% to 60% and that the following Indirect Claims be reclassified as Direct Claims: (i) claims approved by the Deputy Receiver for damages determined to be extra contractual obligations of the Company, as well as claims approved for non-economic damages, consequential damages, litigation costs or attorneys' fees incurred by a Home Owner or Member Builder in asserting a claim against the Company before receivership; and (ii) claims approved by the Deputy Receiver for litigation costs and attorneys' fees incurred by a Member Builder in an action brought against the Member Builder to recover under the Major Structural Defect Insurance Coverage provided by HOWIC. The suspension and moratorium on the payment of all other Indirect Claims, and claims of lesser priority, was continued pending further Orders or Directives.

4. The Deputy Receiver has determined that the best interests of the owners of homes which are covered by a certificate of insurance evidencing the coverages of the Warranty/Insurance Documents ("Home Owners"), Member Builders and creditors would be served by paying 70% on Direct Claims, 70% being an amount the Deputy Receiver currently estimates can reasonably be paid to all similarly situated claimants without preference.

THEREFORE, in accordance with the powers granted to the Deputy Receiver in the Final Order, THE DEPUTY RECEIVER HEREBY DIRECTS:

(a) That effective August 16, 1999, the Company pay 70% of the approved amounts on all Direct Claims, and that the suspension and moratorium on the payment of all Indirect Claims and claims of lesser priority, be continued pending further Orders and Directives.

(b) That each claimant who has been paid 40% on a Direct Claim be paid an additional

30% on that claim, that each claimant who has been paid 50% on a Direct Claim be paid an additional 20% on that claim, and that each claimant who has been paid 60% on a Direct Claim be paid an additional 10% on that claim.

(c) That payments on approved claims continue to be made subject to a case-by-case determination by the Deputy Receiver that the payments would be proper and fair under the circumstances.

(d) That this Directive supersedes all prior directives and policies adopted by the Deputy Receiver regarding claims against the Company in receivership. The terms and conditions of the Third Directive shall remain the same except as may be changed by this Fourth Directive herein.

SIGNED this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

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Alfred W. Gross, Deputy Receiver of Home Warranty Corporation, Home Owners Warranty Corporation, and HOW Insurance Company, a Risk Retention Group, in Receivership